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FISCAL IMPACT REPORT

ORIGINAL DATE 03/14/11

SPONSOR SFC LAST UPDATED _____ HB _____

SHORT TITLE School Fund Reversions & Transfer SB 171/SFCS

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|------|-------------------------|------------------|
| FY11 | FY12 | | |
| | NFI | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|------------------|------------------|-------------------------|-------------------------------|
| FY11 | FY12 | FY13 | | |
| | Up to \$10.0 M | Up to \$10.0 M | Recurring | State-Support Reserve Fund |
| | (Up to \$10.0 M) | (Up to \$10.0 M) | Recurring | General Fund |

(Parenthesis () Indicate Revenue Decreases)

Senate Bill 171 as originally introduced was Legislative Education Study Committee sponsored legislation.

SOURCES OF INFORMATION

LFC Files

Responses Received From

SUMMARY

Synopsis of Bill

Senate Finance Committee Substitute for SB171 amends the Public School Finance Act to require balances remaining in the Public School Fund to be transferred into the State-Support Reserve Fund until the balance in the State-Support Reserve Fund is \$10 million dollars. Excess balances remaining in the Public School fund will revert to the general fund.

FISCAL IMPLICATIONS

Provisions contained in this bill intercept up to \$10 million in funds destined for the general fund and divert them to the state support reserve fund.

The Public School Fund is distributed to school districts and state-chartered charter schools in the following parts:

- State equalization guarantee distribution;
- Transportation distribution; and
- Supplemental distributions:
 - Out-of-state-tuition to school districts;
 - Emergency; and
 - Program enrichment.

The department distributes a majority of these funds to school districts and state-chartered charter schools though may withhold some amount of the state equalization guarantee distribution as explained below. Additionally, receipt of excess credits received for the 0.5 mill levy, forest reserve, and impact are part of the Public School Fund.

The Legislature, in establishing the appropriation for public school support, takes credits for the local 0.5 mill levy, federal forest funds and federal impact aid (generally referred to as 75 percent credits). The program cost less the 75 percent credits equals the appropriation for the state equalization guarantee distribution. The Public Education Department then sets the unit value, and in doing so, if the department considers the Legislature's estimate of the 75 percent credits to be excessive will hold some money back and base the unit value on the program cost less the withheld money. Any funds withheld by the department will revert to the general fund assuming the amount of 75 percent credits were not overestimated.

Currently, the State-Support Reserve Fund, a non-reverting fund, has a balance of \$1 million. The State-Support Reserve Fund was established to augment the appropriations for the state equalization guarantee distribution in order to ensure, to the extent of the balances in the fund, that the maximum figures for such distribution established by law shall not be reduced. Balances in the State-Support Reserve Fund are used to cover any shortages in anticipated revenues from the local 0.5 mill levy, federal forest funds and federal impact aid credits.

The department request for public school support generally includes a conservative estimate of these credits in order to avoid having to hold money back or having to request the return of funds from districts if 75 percent credits come in less than were estimated. Timing of receipt of these credits is also critical, as the department generally receives the bulk of these credits late in the fiscal year.

The below chart shows the amount of 75 percent credits that reverted over the past three years due to underestimation of the credits:

75 Percent Credit Reversions
(in millions)

| Year | Local Property Tax | Impact Aid | Forset Reserve | Total Amount Received | State Estimated Amount in PSS Appropriation | Amount Reverted |
|---|--------------------|-------------|----------------|-----------------------|---|-----------------|
| FY08 | \$ 11,731.2 | \$ 54,283.2 | \$ 778.4 | \$ 66,792.8 | \$ 55,600.0 | \$ 11,192.8 |
| FY09 | \$ 13,252.3 | \$ 67,582.7 | \$ 6,522.1 | \$ 87,357.1 | \$ 55,400.0 | \$ 31,957.1 |
| FY10 | \$ 12,856.1 | \$ 56,983.3 | \$ 6,287.2 | \$ 76,126.6 | \$ 64,400.0 | \$ 11,726.6 |
| Total Amount Reverted Over Last 3 Years | | | | | | \$ 54,876.51 |

Source: PED and LFC Files

It is important to note that, because PED takes a conservative approach to the 75 percent credits and setting the unit value, it is likely that each year there are amounts reverted to the General Fund from the Public School Fund. This means that it is likely that over the next several years \$9 million dollars will be diverted from the general fund to the State-Support Reserve Fund and will be unavailable for appropriation. Additionally, while the State-Support Reserve Fund has historically been used to cover shortages in receipt of 75 percent credits, use of the fund is not statutorily limited to covering only shortfalls in 75 percent credits. The statute broadly states that the fund shall be used to ensure that the maximum figures for such distributions established by law shall not be reduced. If there is a continuous stream of funds diverted into the State-Support Reserve Fund it is possible that there will be increased pressure on the department to use the State-Support Reserve Fund to ensure the unit value does not decrease. For example, this last year the general fund unit value decreased \$102.41 as a result of the 3.244 percent budget cuts. Under this proposal, the department would have access to upwards of \$10 million and would be able to use these funds to cover shortages such as the September allotment reductions.

SIGNIFICANT ISSUES

The public school fund is a destination fund that annually receives revenue from the current school fund, the common school fund and from federal mineral leasing revenues. Total revenues contained in the fund along with augmentation funds from the general fund are used to develop the annual general fund appropriation to the state equalization guarantee by the Legislature.

The Legislature created the State-Support Reserve Fund to augment the appropriation for the state equalization guarantee distribution in order to ensure the unit value isn't decreased during the year. The Legislature intended that the fund be reimbursed each year for distributions made out of the fund the preceding year so that the fund maintains a balance of at least \$10 million. The last appropriation made to the fund was in FY08, and the fund currently has a balance of \$1 million. This bill will not limit balances in the State-Support Reserve Fund to \$10 million, but will authorize transfers from the Public School Fund to the State-Support Reserve Fund until the balance in the State-Support Reserve Fund is \$10 million.

ADMINISTRATIVE IMPLICATIONS

PED administers the Public School Fund appropriated by the Legislature. The Secretary of PED also is responsible for notifying the state treasurer of any amounts in the State-Support Reserve Fund that will be needed for distribution.

ALTERNATIVES

Include language in the General Appropriation Act to allow the department to access reserves in a specified amount with Board of Finance approval if 75 percent credits come in lower than expected so the department will not have to decrease the unit value.

RSG/mew